

NCA
VOC FOR PGN/FN
BACKGROUNDER: NO. 5-6232
JOSEPH SULLIVAN

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CHINA: THE OIL EQUATION

ANNCR:

U.S. SECRETARY OF ENERGY JAMES SCHLESINGER, THIS PAST WEEKEND, TOOK TIME OFF FROM TALKS WITH CHINESE OFFICIALS IN PEKING TO VISIT ONE OF CHINA'S MAJOR PETROLEUM-PRODUCING AREAS. VOA'S JOSEPH SULLIVAN HAS THIS BACKGROUND REPORT ON CHINA'S OIL PROSPECTS. VOICE:

IN RECENT MONTHS, OIL COMPANIES FROM THE UNITED STATES, WESTERN EUROPE AND JAPAN HAVE SENT A PARADE OF REPRESENTATIVES TO PEKING TO DISCUSS OIL EXPLORATION IN CHINA. AT LEAST FIVE AMERICAN OIL COMPANIES HAVE SENT DELEGATIONS TO CHINA FOR TALKS ON POSSIBLE TECHNICAL CO-OPERATION, AND A DELEGATION REPRESENTING THE MOBIL OIL CORPORATION WILL VISIT PEKING IN EARLY NOVEMBER. THEIR INTEREST IS CENTERED ON AN IMMENSE AREA OF COASTAL WATER STRETCHING FROM THE PO HAI GULF IN THE NORTH TO HONG KONG IN THE SOUTH

JUST HOW MUCH OIL IS INVOLVED IS SUBJECT TO MUCH CONJECTURE. AN AMERICAN GEOLOGIST WHO HAS DONE WORK IN CHINA BELIEVES THAT CHINA'S OFFSHORE OIL RESERVES COULD EXCEED NINE THOUSAND MILLION METRIC TONS. THAT'S ABOUT AS MUCH OIL AS IN ALL THE PROVED RESERVES IN THE UNITED STATES. BUT MORE OPTIMISTIC SPECULATORS SAY THAT CHINA'S OIL RESERVES COULD MATCH THOSE OF SAUDIA ARABIA IN SIZE.

(OPT) CHINA IS CURRENTLY PRODUCING NEARLY TWO HUNDRED FIFTY THOUSAND TONS OF CRUDE OIL A DAY, ALMOST ALL OF WHICH IS DERIVED FROM ONSHORE WELLS. BUT THERE'S EVIDENCE TO INDICATE THAT PEKING IS FINDING IT INCREASINGLY DIFFICULT TO SUSTAIN A HIGH RATE OF GROWTH FROM ITS ONSHORE OILFIELDS. UP

TO 1975, CHINA'S CRUDE OIL PRODUCTION GREW AT A REPORTED ANNUAL RATE OF MORE THAN 20 PERCENT A YEAR. BUT THE GROWTH RATE FELL TO FOURTEEN PERCENT IN 1975. AND LAST YEAR, CRUDE OIL OUTPUT INCREASED BY ONLY NINE PERCENT. THUS, (END OPT) MOST OIL EXPERTS SAY THAT IF CHINA IS TO REALIZE ITS AMBITIOUS PLANS OF DOUBLING OIL PRODUCTION BY 1985, IT WILL HAVE TO DEVELOP OFFSHORE FIELDS.

UNDERSTANDABLY, PEKING'S LONG-TERM ECONOMIC PLANS PLACE HIGH PRIORITY ON THE DEVELOPMENT OF THE COUNTRY'S OIL RESOURCES. FOR THE FACT IS THAT CHINA MUST EXPORT AN INCREASINGLY LARGER QUANTITY OF CRUDE OIL TO FINANCE ITS IMPORTS OF FOREIGN EQUIPMENT AND TECHNOLOGY NEEDED FOR THE COUNTRY'S MODERNIZATION PROGRAM. JAPAN -- THE LARGEST CUSTOMER FOR CHINESE OIL -- HAS AGREED TO BUY MORE THAN SEVEN MILLION TONS OF CRUDE OIL FROM CHINA THIS YEAR. JAPANESE BUSINESSMEN ARE ANXIOUS TO SELL CHINA EQUIPMENT FOR DEVELOPING ITS PETROLEUM INDUSTRY, BUT THERE IS SOME QUESTION AS TO WHETHER JAPAN, OVER THE LONG-TERM, WILL BE WILLING TO ACCEPT GREATLY INCREASED QUANTITIES OF CHINESE OIL. THE PROBLEM IS THAT CHINESE CRUDE OIL CONTAINS A HEAVY AMOUNT OF PARAFFIN (WAX), WHICH REQUIRES COSTLY REFINING TO PRODUCE ANYTHING OTHER THAN HEAVY FUEL OIL.

PETROLEUM EXPERTS SAY THAT PEKING'S GOAL OF REACHING A DAILY PRODUCTION OF ONE MILLION TONS OF OIL BY THE END OF THE CENTURY WILL BE ALMOST IMPOSSIBLE WITHOUT GREAT AMOUNTS OF FOREIGN TECHNOLOGY. TO REACH THIS GOAL, THEY SAY, CHINA WILL HAVE TO DEVELOP AT LEAST TEN OFFSHORE FIELDS THE SIZE OF THE TACHING OIL FIELD. AND THAT, THEY ESTIMATE, WOULD COST MORE THAN TWENTY THOUSAND MILLION DOLLARS FOR EVERYTHING FROM SEISMIC SURVEYS TO OIL TANKERS.